

**REPORT OF THE AUDIT OF
LEWIS COUNTY
CLERK**

**For The Year Ended
December 31, 2006**

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The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable Shirley Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the County Clerk of Lewis County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2007, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

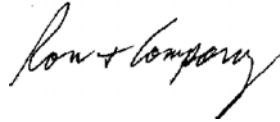
Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Deposit Funds Into An Interest-Bearing Account

The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable Shirley Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lewis County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

March 30, 2007

LEWIS COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
December 31, 2006

LEWIS COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	5,857
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Fiscal Court		4,885
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	320,163
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Usage Tax		561,518
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Tangible Personal Property Tax		750,523
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Other-

Fish and Game Licenses		6,488
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Marriage Licenses		3,795
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Deed Transfer Tax		23,492
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Delinquent Tax	61,124	1,727,103
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		15,520
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Real Estate Mortgages		16,052
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Chattel Mortgages and Financing Statements		41,202
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All Other Recordings		14,918
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Charges for Other Services-

Candidate Filing Fees		2,320
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Late Filing Fees		320
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Copywork	2,360	92,692
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Other:

Miscellaneous		87
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Notary	804	891
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Total Revenues	\$	1,831,428
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The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 251,449	
Usage Tax	544,440	
Tangible Personal Property Tax	278,863	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	6,287	
Marriage Licenses	1,485	
Delinquent Tax	6,934	
Legal Process Tax	10,189	1,099,647

Payments to Fiscal Court:

Tangible Personal Property Tax	79,620	
Delinquent Tax	11,015	
Deed Transfer Tax	22,317	112,952

Payments to Other Districts:

Tangible Personal Property Tax	362,020	
Delinquent Tax	28,219	
Miscellaneous Tax Bills	2,506	392,745

Payments to Sheriff 1,109

Payments to County Attorney 7,687

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 97,024	
Deputy Bond	223	
Clerk's Bond	213	

Contracted Services-

Advertising	1,635	
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The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Materials and Supplies-		
Office Supplies	17,440	
Other Charges-		
Refunds	1,831	
Dues	400	
Postage	4,666	
Housing Trust Fund	5,832	\$ 129,264
Total Expenditures		<u>\$ 1,743,404</u>
Net Revenues		88,024
Less: Statutory Maximum		<u>69,341</u>
Excess Fees		18,683
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2006		15,083
Payment to Fiscal Court - March 21, 2007		<u>15,083</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY CLERK
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan public retirement system that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. The report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Rd, Frankfort, Kentucky 40621-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

In 2006, the County Clerk was awarded a microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$9,457, the money was deposited into a separate grant account. There has not been any activity in the account during the year under audit.

Note 5. Conflict of Interest

The County Clerk currently sits on the Board of Trustees' at First Community Bank. First Community Bank is the financial institution in which the county monies are maintained and deposited by the County Clerk. Due to the relationship between the County Clerk and being a member of the Board of Trustees' (the decision and policy making body of the financial institution), a conflict of interest exists.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Members of the Lewis County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lewis County Clerk for the year ended December 31, 2006, and have issued our report thereon dated March 30, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Lewis County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lewis County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

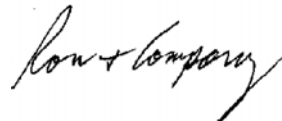
As part of obtaining reasonable assurance about whether the Lewis County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one (1) instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

- The County Clerk Should Deposit Funds Into An Interest-Bearing Account

The Lewis County Clerk's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Lewis County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Ross & Company, PLLC
Certified Public Accountants

March 30, 2007

COMMENT AND RECOMMENDATION

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The County Clerk Should Deposit Funds Into An Interest-Bearing Account

The County Clerk's Fee Account was non-interest bearing. KRS 68.210 and KRS 66.480 say that county officials should deposit public funds into interest-bearing accounts. We recommend the County Clerk deposit public funds into an interest-bearing account.

County Clerk's Response: Will comply.

PRIOR YEAR:

The County Clerk Should Deposit Funds Into An Interest-Bearing Account

This comment was in the prior year audit and has not been corrected.

